



## LEADING ECONOMIC INDICATORS

### Leading Indicators Point to Strengthening Economic Recovery; Risk of Double-Dip Recession Diminishing

- The index of leading economic indicators recently posted the most significant gain since the recession ended. In March, the index increased 1.4 percent, marking the 12<sup>th</sup> consecutive month of improvement. Seven of the 10 components comprising the index contributed positively to the March reading, including initial unemployment claims, building permits and stock prices, up from six components in February. Strengthening of this index demonstrates the economic recovery is advancing and will broaden to include more sectors as the year progresses.
- Although an official end to the recession has yet to be declared, mounting evidence indicates the recovery has already gathered significant momentum. During the first quarter, the S&P 500 gained nearly 5 percent, while inflation advanced just 0.2 percent, allowing the Fed to maintain its accommodative stance. Furthermore, retail sales exceeded expectations in March, rising 1.6 percent, and employers added 162,000 jobs, marking the largest monthly increase in three years. Even though 88,200 of the jobs created in March are temporary, the overall employment cycle is finally turning. These trends demonstrate greater economic strength, but for the recovery to become self-sustaining, businesses must increase spending in the second half as the impact of government stimulus fades.
- Risks of a double-dip recession have begun to dwindle. The probability of a recession within the next six months has slipped to 26 percent, down from 32 percent a month ago. Risks such as massive levels of public debt, the potential for another surge in residential foreclosures due to strategic defaults by underwater homeowners and looming commercial mortgage losses will persist for some time, but most indicators suggest the recovery is sustainable.
- Barring an unexpected shock, job growth should continue at a moderate pace through 2010, with the U.S. regaining approximately 1 million of the 8.4 million jobs lost during the recession. While consumers will remain strapped by tight credit markets and high unemployment, businesses will begin to pick up the slack in the second half, shifting from the utilization of temporary workers to hiring permanent employees. As expected, apartments were the first commercial real estate sector to stabilize as job creation supports renewed renter household formation. Several markets that posted above-average job growth in recent months, including San Diego, Seattle, San Jose and Charlotte, also recorded improvements in apartment occupancy rates.
- The hospitality sector also improved in the first quarter when compared to one year earlier, with occupancy rising 110 basis points and room revenues increasing 0.7 percent, the first quarterly uptick since late 2008. Occupancy gains early this year were strongest in the luxury sector, which benefited from discounted room rates and improved leisure travel as stock market gains helped prop up household wealth.

